

Report of the auditor-general to the Limpopo provincial legislature and the council on Collins Chabane Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Collins Chabane Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. The financial statements of Collins Chabane Local Municipality were materially misstated; municipality did not recognise capital expenditure for assets received from other organs of state, as required by GRAP 17, *Property, plant and equipment*. The effect on the financial statements was that property, plant and equipment was understated by R1 826 214. Additionally, there was an impact on the gains from transfer of functions
4. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property, plant and equipment. As described in note 38 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment corresponding figure stated at R369 778 268 in the financial statements.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for sundry receivables as the supporting information was not provided. I was unable to confirm the sundry receivables by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to sundry receivables stated at R3 715 632 in the financial statements.
6. SA Standards of GRAP 104, *Financial Instruments* requires the municipality to first assess whether objective evidence of impairment exists individually for financial assets that are financial significant, and then collectively for financial assets that are not individually significant. The municipality made a provision of R 12 921 481 for the impairment of receivables from non-

exchange transactions as disclosed in note 10 to the financial statements. However, this impairment was not assessed by the municipality at year end in accordance with GRAP 104. I was unable to calculate what the impairment charge against receivables from non-exchange transactions and impairment losses expense should have been if GRAP 104 had been applied correctly. Consequently, I was unable to determine whether any adjustments relating to receivables from non-exchange transactions amounting to R16 049 225

Receivables from exchange transactions

7. The financial statements of the municipality were materially misstated as the municipality recognised a balance of developmental levy that was written off. The effect on the financial statements was that receivables from exchange transaction was overstated by R2 151 741. Additionally, there was an impact on the accumulated surplus
8. SA Standards of GRAP 104, *Financial Instruments* requires the municipality to first assess whether objective evidence of impairment exists individually for financial assets that are financial significant, and then collectively for financial assets that are not individually significant. The municipality made a provision of R4 116 778 for the impairment of receivables from exchange transactions as disclosed in note 9 to the financial statements. However, this impairment was not assessed by the municipality at year end in accordance with GRAP 104. I was unable to calculate what the impairment charge against receivables from non-exchange transactions and impairment losses expense should have been if GRAP 104 had been applied correctly. Consequently, I was unable to determine whether any adjustments relating to receivables from exchange transactions amounting to R6 313 913

Sundry debtors

9. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for sundry receivables. As described in note 38 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to sundry receivables the corresponding figure stated at R369 013 in the financial statements.

Other financial assets

10. The municipality's other financial assets (VBS Investment) are carried in the statement of financial position at R122 410 521. Management did not assess the investment in VBS mutual bank for impairment in accordance with GRAP 104, *Financial Instruments*, even though objective evidence exist that the investment is impaired. Accordingly, other financial assets are overstated by R122 410 521 and this also has an impact on the surplus for the period and on the accumulated surplus.

Statement of change in net assets

11. I was unable to obtain sufficient appropriate audit evidence for the transactions included in the statement, as the municipality did not maintain records of differences between the underlining records as well as correction of errors made. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary these amounts.

Prior period error

12. The municipality did not disclose prior period errors in note 38 to the financial statements relating to Current assets, PPE and Current liabilities, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the previous period errors disclosed as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the previous period errors disclosed in the financial statements.

Revenue from non-exchange transactions

13. The municipality did not recognise all revenue in accordance with GRAP 23, *Revenue from non-exchange transactions*. Incorrect tariffs were applied to monthly property rates billings and not all properties were billed property rates. Consequently, revenue from non-exchange transactions was understated by R8 714 017 (2017: R4 337 944) and receivables from non-exchange transactions was understated by the same amounts.

Revenue from exchange transactions

14. The municipality did not recognise all revenue in accordance with GRAP 9, *Revenue from exchange transactions*. Interest generated from investment was not recognised in the financial statements. Consequently, revenue from exchange transactions was understated by R3 174 427 and the receivables from exchange transactions was understated by the same amount.

Cash flow statement

15. The financial statements of the municipality were materially misstated, as the municipality did not account for cash flows, as required by GRAP 2, *Cash flow statements*. The effect on the financial statements was that cash flow statement was overstated by R5 474 071

Commitments

16. The financial statements of the municipality were materially misstated, as commitments were not properly accounted for in the financial statements, as required by GRAP 1, *Presentation of financial statements*. The effect on the financial statements was that commitments were overstated by R102 486 165

Irregular expenditure

17. The municipality did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality made payments in contravention of the supply chain management requirements, resulting in irregular expenditure of R 44 528 875

Unauthorised expenditure

18. The municipality incorrectly calculated unauthorised expenditure in the current year by disclosing an underspending of the budget as overspending, the effect on the financial statements was that unauthorised expenditure was overstated by R4 998 192

Aggregation/ accumulation of immaterial uncorrected misstatements

Expenditure

19. Total expenditure was materially misstated by R2 694 288 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Expenditure stated at R66 111 683 was overstated by R861 753
- Employee cost stated at R86 063 292 was overstated by R810 320
- Depreciation stated at R15 204 534 was overstated by R1 022 215

Context for the opinion

20. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
21. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
22. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Emphasis of matters

23. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

24. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the department at, and for the year ended, 30 June 2018.

Material losses/impairments

25. As disclosed in note 29 to the financial statements, material losses to the amount of R9 933 573 were incurred as a result of impairment of irrecoverable trade debtors due to inadequate collection processes

Underspending of the conditional grant

26. As disclosed in note 16 of the statement of financial position, the municipality has materially underspent on conditional grants to the amount of R28 859 142

Introduction and scope

35. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
36. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
37. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the Municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
Development priority – KPA 1: Municipal transformation and organisational development	x – x
Development priority – KPA 3: Basic service delivery and infrastructure development	x – x

38. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
39. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 3 – Basic Service Delivery and Infrastructure Development

of municipal building gardens maintained by 30 June 2018

40. The planned indicator and target were “# of Municipal building gardens maintained by 30 June 2018: 4 Municipal building maintained by 30 June 2018.(DCO, Vuwani, Technical and Traffic)”, but the reported achievement referred to was “4 Municipal building maintained”.

To purchase furniture for community services by 30 June 2018

41. The planned indicator was duplicated as it was already planned for in the development priority: KPA 1: municipal transformation and institutional development.
42. I did not raise any material findings on the usefulness and reliability of the reported performance information for KPA 1: municipal transformation and organizational development

Other matter

43. I draw attention to the matter below.

Adjustment of material misstatements

44. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1: municipal transformation and organisational development and KPA 3: basic service delivery and infrastructure development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

45. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
46. The material findings on compliance with specific matters in key legislations are as follows:

Financial statements, performance and annual reports

47. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.
48. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the financial statements receiving an adverse audit opinion.

Asset management

49. Funds were invested in VBS Mutual bank, in contravention of municipal investment regulation 6.
50. Capital assets were transferred without the approval of the council, as required by section 14(2)(a) of the MFMA.
51. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Revenue management

52. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
53. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Expenditure management

54. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA
55. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations
56. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R760 773 as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless expenditure was caused by late payment of monies due to service providers.

Human resource management

57. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Procurement and contract management

58. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
59. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
60. Invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). This non-compliance was identified in the procurement processes for Malamulele D Road
61. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the Malamulele D Road and refurbishment of civic centre.
62. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). This non-compliance was identified in the procurement processes for the Malamulele D Road and Xitlheleni Roads

63. A construction contract was awarded to a contractor that were not registered with the CIDB in accordance with section 18(1) of the Construction Industry Development Board Act, 2000 (Act No. 38 of 2000). This non-compliance was identified in the procurement processes for the refurbishment of civic centre
64. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation. This non-compliance was identified in the procurement processes for furniture.
65. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
66. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

Other information

67. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
68. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
69. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

70. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the adverse opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
71. Management did not always provide the required supervision and review over daily and monthly recording and reconciliation of transactions and account balances to ensure that the municipality complies with will applicable financial reporting.

- 72. Compliance with policies and procedures for performance information was not properly monitored.
- 73. Action plans were not adequately implemented and monitored
- 74. The financial statements were not reconciled to the underlying records to ensure the accuracy, completeness and reliability of the reported financial results.
- 75. Monthly reconciliations for financial reporting and compliance with laws and regulations were not subjected to proper review to ensure accuracy, completeness and reliability of the reported financial results.
- 76. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor-General

Polokwane

30 November 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the Municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.